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National Dairy Products Corporation

NEW YORK

ANNUAL REPORT

1938

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National Dairy Products Corporation

DIRECTORS

F. J. Andre
President, The Telling-Belle Vernon Company, Cleveland

F. J. Bahl
President, Tri-State Butter Company, Cincinnati

Henry W. Breyer, Jr.
Director, Breyer Ice Cream Company, Philadelphia

Frederick J. Bridges
President, Hydrox Corporation, Chicago

Lester Claster
President, Food Sales Company, Inc., New York

N. J. Dessert
Vice-President, Detroit Creamery Company, Detroit

C. Wesley Ebling
President, Detroit Creamery Company, Detroit

E. J. Finneran
Director of Sales and Advertising

J. Henry Geissler
Vice-President, Breyer Ice Cream Company, Philadelphia

Joseph Gilfillan
Attorney, Philadelphia

Robert S. Gordon
General Counsel

B. S. Halsey
Vice-President, Sheffield Farms Company, Inc., New York

H. C. Horneman
President, Sugar Creek Creamery Company, Danville

Vernon F. Hovey
President, General Ice Cream Corporation, Schenectady

J. L. Kraft
President, Kraft-Phenix Cheese Corporation, Chicago

John H. Kraft
Vice-President, Kraft-Phenix Cheese Corporation, Chicago

B. M. Lide, Jr.
President, St. Louis Dairy Company, St. Louis

William F. Luick
President, Luick Ice Cream Company, Milwaukee

E. J. Mather
President, Southern Dairies, Inc., Washington, D. C.

Thos. H. McInnerney
President

P. P. Miller
Vice-President, General Ice Cream Corporation, Schenectady

Edward E. Rieck
Chairman of Board, Rieck-McJunkin Dairy Company, Pittsburgh

Wilbur S. Scott
President, Breyer Ice Cream Company, Philadelphia

A. A. Stickler
Treasurer

Horace S. Tuthill
Secretary, Sheffield Condensed Milk Company, Inc., New York

L. A. Van Bomel
President, Sheffield Farms Company, Inc., New York

Sidney J. Weinberg
Banker, New York

H. Burton Wilkerson
President, Nashville Pure Milk Company, Nashville

Frank A. Wills
Chairman of Board, Supplee-Wills-Jones Milk Company, Philadelphia

Henry N. Woolman
Vice-President, Supplee-Wills-Jones Milk Company, Philadelphia

Each company named above is an operating company of
National Dairy Products Corporation

National Dairy Products Corporation

OFFICERS

Thos. H. McInnerney	*President*
L. A. Van Bomel	*Executive Vice-President*
Frederick J. Bridges	*Vice-President*
James Bruce	*Vice-President*
Vernon F. Hovey	*Vice-President*
Wilbur S. Scott	*Vice-President*
A. A. Stickler	*Treasurer*
A. Boag, Jr.	*Secretary and Comptroller*
George H. Rutherford	*Assistant Treasurer*
J. F. Twomey	*Assistant Comptroller*
G. W. McGhee	*Assistant Secretary*
E. J. Finneran	*Director of Sales and Advertising*
Robert S. Gordon	*General Counsel*

EXECUTIVE COMMITTEE

Thos. H. McInnerney
Vernon F. Hovey — Wilbur S. Scott
J. L. Kraft — L. A. Van Bomel

TRANSFER AGENT
Bankers Trust Company
New York, N. Y.

REGISTRAR
The Chase National Bank
of the City of New York
New York, N. Y.

COUNSEL
Sullivan & Cromwell

AUDITORS
Price, Waterhouse & Co.

EXECUTIVE OFFICES
120 Broadway, New York, N. Y.

National Dairy Products Corporation

New York, N. Y., March 9, 1939.

To the Stockholders:

Our Annual Report for the year ended December 31, 1938 is submitted herewith. Messrs. Price, Waterhouse & Co. have examined the books of account and records of the corporation and its subsidiary companies and their certificate is appended.

Sales totaled $334,355,269 in 1938 compared with $351,015,643 in 1937, a decrease of 4.7%. Although dollar sales declined, due primarily to lower selling prices, the aggregate volume of all products sold was the largest in the company's history.

Net profit for 1938, after interest, depreciation and provision for all Federal and State taxes, was $11,326,360 and, after allowing for payment of preferred dividends, equalled $1.69 per share on the 6,263,880 shares of common stock outstanding at the end of the year compared with $1.53 per share for 1937.

Net profit before provision for Federal income taxes was $14,069,523 in 1938, an increase of $1,568,142 over 1937. However, larger Federal income taxes absorbed about one-third of this increase.

The form of our financial statements has been changed this year to show comparative data for 1938 and 1937. The statement of profit and loss now sets forth, as separate items, cost of products, delivery, selling, and administrative and general expenses. Depreciation and repair expenses, formerly shown as specific items in the profit and loss statement, are now included in the various accounts. The totals of these two expenses are set forth in footnotes. The 1937 statements as published last year have been rearranged for comparative purposes to follow the new form. We believe this method of presentation gives you more comprehensive information and facilitates a comparative analysis of operations.

To furnish you with further pertinent data on operations we have also included charts showing comparisons in sales volume and unit selling prices of our major products, the relative importance of each of these products to the company's total dollar sales and a breakdown of the sales dollar by various expense classifications.

It will be noted that the sale of miscellaneous products amounted to nearly one-fifth of our total sales in 1938. These products include mayonnaise and salad products, evaporated and condensed milk, milk powders, casein, eggs, milk specialties and other products. During the last eight years sales of these products have increased 40%. This is concrete evidence of the success of our efforts to achieve more diversification through development of new products and constant research for new commercial uses for milk.

The Board of Directors deemed it advisable to reduce the rate of dividend on the common stock effective October 1, 1938 so that a larger portion of earnings could be used to increase the company's working capital. Merchandise inventories were increased $2,417,000 primarily because larger supplies were required to support the considerable increase in sales volume of cheese. Current bank loans were reduced $2,235,000 during the year. Working capital increased about $4,500,000.

Expenditures for capital additions during 1938 were about $900,000 less than the provision for depreciation. Your management estimates that 1939 expenditures will not exceed the depreciation provision.

Our total taxes amounted to $8,035,000 in 1938 compared with $7,011,000 in 1937, equivalent to $1.28 per share and $1.12 per share respectively on our common stock. In contrast, in 1932 when your company earned $1.88 per share, taxes amounted to only $.70 per share.

In November, 1938, a Federal grand jury in Chicago handed down two indictments affecting companies and individuals engaged in the milk and ice cream business. Neither your company nor any of its subsidiaries is involved in any way in the milk indictment. The other indictment relates solely to ice cream counter freezers and names trade associations, corporations and individuals in the ice cream industry, including your company, four of its subsidiary companies and four officers of your company or subsidiaries. It is merely a restatement of the claims heretofore advanced in the civil suits by the Mills Novelty Company which have been referred to in our previous annual reports. These civil suits have now been withdrawn by the Mills Novelty Company in all three Federal district courts. Your management believes there is no more merit in the current action in Chicago than there was in the civil suits.

Your company will have a Sealtest exhibit building at the New York World's Fair. This exhibit will demonstrate how The Sealtest System of Laboratory Protection supervises and insures the production of high quality dairy products. This presentation will be in such form that spectators will also be able to see pasteurization and bottling of milk, manufacture of ice cream and packaging of cheese. Sealtest's consumer service will be demonstrated through the operation of the Sealtest Laboratory Kitchen. We hope that our stockholders will take the opportunity to visit this Sealtest exhibit at the Fair.

Our subsidiary companies comment frequently on the large number of our stockholders who favor them with their business. Your management thanks the new stockholders who have commenced purchasing our products during the year and appreciates the continued patronage of our shareholders. The Board of Directors expresses its thanks to each and every employee and officer of our subsidiary companies for their loyalty and cooperation which resulted in the improvement in earnings during 1938.

By order of the Board of Directors.

THOS. H. MCINNERNEY,
President.

To the Board of Directors of
National Dairy Products Corporation:

We have made an examination of the consolidated balance sheet of National Dairy Products Corporation and its subsidiary companies as at December 31, 1938 and of the consolidated statements of profit and loss and surplus for the year 1938. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies during the year under review, the consolidated position of National Dairy Products Corporation and its subsidiary companies as at December 31, 1938, and the results of their operations for the year.

PRICE, WATERHOUSE & CO.

56 Pine St.,
New York,
March 9, 1939.

National Dairy Pr

AND SUBSIDI

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1938	December 31, 1937
Current and Working Assets:		
Cash in banks and on hand	$ 16,840,571.00	$ 19,146,376.46
Marketable securities at cost, less reserve for market depreciation	66,829.19	134,633.75
Notes receivable	$ 556,458.05	$ 629,898.22
Accounts receivable	18,415,327.92	18,033,057.04
Total notes and accounts receivable	$ 18,971,785.97	$ 18,662,955.26
Less: Reserve for doubtful notes and accounts	1,921,054.05	2,032,924.80
	$ 17,050,731.92	$ 16,630,030.46
Inventories at cost or market, whichever is lower	$ 27,564,368.05	$ 25,146,771.82
Miscellaneous supplies	2,953,336.51	3,358,551.80
Cash surrender value of life insurance	347,717.32	332,325.29
	$ 64,823,553.99	**$ 64,748,689.58**
Investments and Advances:		
Company's common stock—8,633 shares at cost	$ 199,815.70	$ 199,815.70
Investments in and advances to affiliated companies	671,277.42	846,244.78
Securities on deposit with State insurance departments	508,945.27	476,566.48
Cabinet fountain and equipment contracts, less reserve	779,502.29	646,542.85
Miscellaneous investments	1,712,431.95	1,831,457.21
Other notes and accounts receivable, less reserve	1,736,072.01	1,501,962.61
Funds in closed banks, less reserve	114,990.54	163,233.76
Loans to employees, less reserve of $500,000	230,794.32	624,125.59
	$ 5,953,829.50	**$ 6,289,948.98**
Cash on Deposit in Purchase Fund for retirement of 3¼% Debentures due 1951	**$ 194.83**	**$ 333.05**
Capital Assets:		
On basis of cost, or sound values as appraised with additions at cost, less adjustments written off:		
Land	$ 18,158,008.03	$ 18,158,163.87
Buildings, machinery and equipment	145,043,774.71	149,203,544.88
	$163,201,782.74	$167,361,708.75
Less: Reserves for depreciation on buildings, machinery and equipment	57,524,455.13	58,957,004.91
	$105,677,327.61	**$108,404,703.84**
Prepaid taxes, insurance, interest, etc	**$ 877,915.97**	**$ 971,103.88**
Goodwill	**$ 22,391,853.64**	**$ 22,391,853.64**
	$199,724,675.54	**$202,806,632.97**

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DECEMBER 31, 1938 AND DECEMBER 31, 1937

LIABILITIES

	December 31, 1938	December 31, 1937
Current Liabilities:		
2½% bank loans maturing February 1 and August 1 of following year..	$ 1,400,000.00	$ 1,400,000.00
Other notes payable to banks	4,464,125.00	6,699,800.00
Accounts payable including sundry accruals	15,990,614.99	18,700,984.19
Reserves for Federal taxes	3,094,404.29	2,559,740.09
	$ 24,949,144.28	$ 29,360,524.28
2½% Bank Loans maturing semi-annually February 1 and August 1 of second succeeding year to February 1, 1941	$ 2,100,000.00	$ 3,500,000.00
3¾% Debentures due 1951 with common stock purchase warrants attached expiring May 1, 1940, of which warrants pertaining to $71,500 of debentures have been exercised: (Annual purchase fund requirement $1,876,365 principal amount)		
Issued	$ 62,545,500.00	$ 62,545,500.00
Less: Retired or held in treasury	3,770,000.00	2,006,500.00
	$ 58,775,500.00	$ 60,539,000.00
Minority Stockholders' Interest in subsidiary companies (Including preferred stock of Fairfield Western Maryland Dairy Corporation, preferred over common on liquidation up to $2,012,500, carried on books at $546,694.84)	$ 914,449.54	$ 920,013.48
Reserves for Contingencies:		
Insurance	$ 1,343,802.39	$ 1,199,525.66
General	1,418,430.73	1,435,886.30
	$ 2,762,233.12	$ 2,635,411.96
Capital Stock and Capital Surplus:		
Preferred stock Class A 7% cumulative: Authorized—69,244 shares of $100 par value Issued less retired—57,339 shares	$ 5,733,900.00	$ 5,733,900.00
Preferred stock Class B 7% cumulative: Authorized—50,000 shares of $100 par value Issued less retired—41,370 shares	4,137,000.00	4,137,000.00
Common stock:		
Authorized—8,000,000 shares without par value		
Reserved for issue upon exercise of stock purchase warrants attached to debentures—613,810 shares		
Issued—6,263,880 shares at stated value	51,337,430.00	51,337,430.00
Capital surplus, per statement attached	4,297,721.02	4,308,304.59
	$ 65,506,051.02	$ 65,516,634.59
Earned surplus, per statement attached	$ 44,717,297.58	$ 40,335,048.66
	$199,724,675.54	$202,806,632.97

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

For the Years Ending December 31, 1938 and December 31, 1937

	Year 1938	Year 1937
Net sales (excluding inter-company sales)	$334,355,269.51	$351,015,643.84
Deduct:		
Cost of products	$228,585,145.39	$245,794,741.75
Delivery expense	52,820,112.54	53,483,134.19
Selling expense	24,191,237.18	24,941,892.84
Administrative and general expenses	12,858,119.68	12,571,878.88
	$318,454,614.79	$336,791,647.66
	$ 15,900,654.72	$ 14,223,996.18
Other income:		
Dividends received	$ 35,770.68	$ 73,686.96
Interest received	232,504.17	219,531.59
Purchase discounts	498,771.47	528,463.18
Rents and royalties	177,362.14	220,049.42
Miscellaneous other income	219,688.72	84,682.79
	$ 1,164,097.18	$ 1,126,413.94
	$ 17,064,751.90	$ 15,350,410.12
Other charges:		
Interest on funded debt	$ 2,335,198.77	$ 2,452,888.37
Other interest	176,240.40	152,994.47
Net loss on disposition of capital assets	126,724.05	58,556.43
Miscellaneous charges	357,064.84	184,589.00
	$ 2,995,228.06	$ 2,849,028.27
Profit before provision for Federal income taxes	$ 14,069,523.84	$ 12,501,381.85
Provision for Federal income taxes	2,602,000.00	2,083,100.00
Profit before dividends on preferred stock of subsidiary company held by public and minority interest in earnings	$ 11,467,523.84	$ 10,418,281.85
Deduct:		
Dividends on preferred stock of subsidiary company held by public	$ 120,750.00	$ 120,750.00
Minority interest in earnings	20,413.67	6,800.33
	$ 141,163.67	$ 127,550.33
Net profit carried to earned surplus	$ 11,326,360.17	$ 10,290,731.52

Note A: Depreciation included in the above accounts for the year 1938 aggregated $10,557,280.68 and for the year 1937 aggregated $10,383,870.56.

Repairs and maintenance (including replacements of milk bottles) amounted to $9,732,303.30 for the year 1938 and $10,570,585.95 for the year 1937.

Note B: The net profit carried to earned surplus, after deducting dividends of $690,963.00 on the parent company's preferred stocks, was equivalent to $1.69 per share for the year 1938 and $1.53 per share for the year 1937, on the shares of common stock outstanding at the end of each year.

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNED SURPLUS

For the Years Ending December 31, 1938 and December 31, 1937

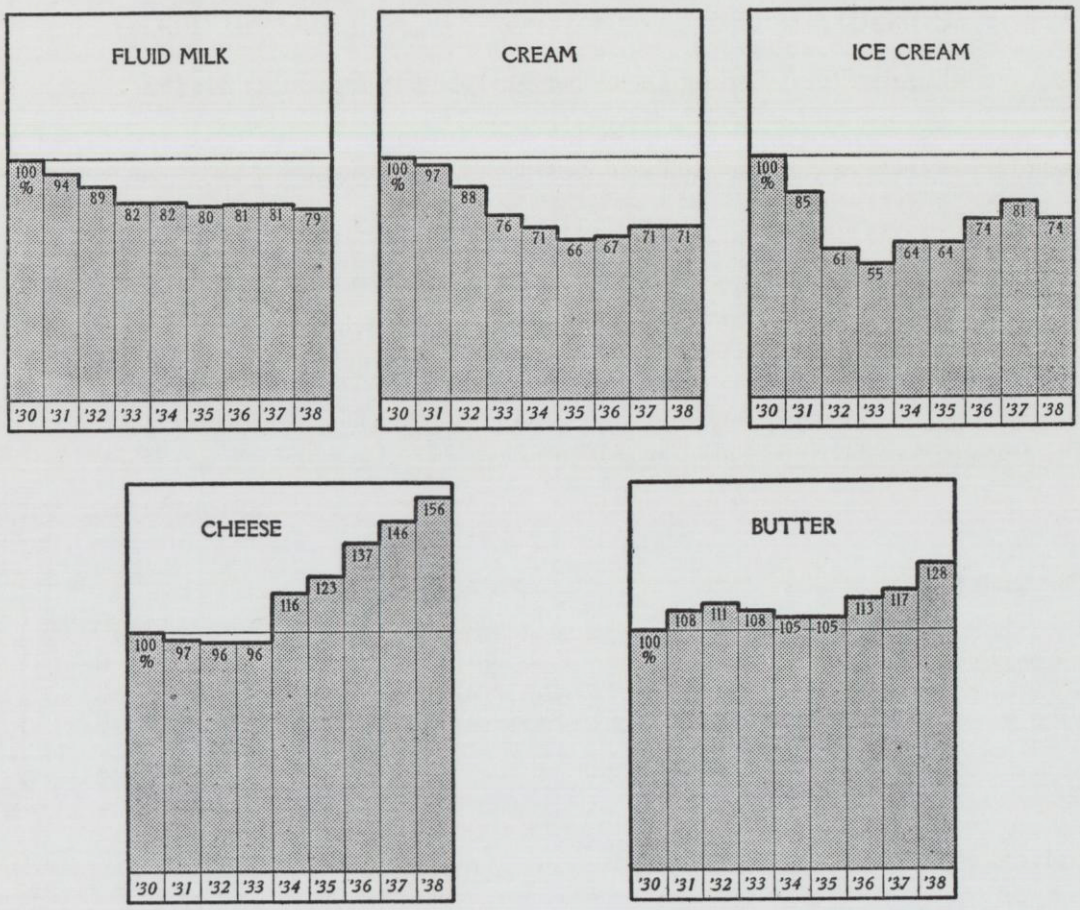
	Year 1938	Year 1937
Earned surplus at beginning of year, per published reports	$40,335,048.66	$38,249,597.79
Add:		
Net profit, per statement attached	11,326,360.17	10,290,731.52
Discount on retirement of Debentures through operation of purchase fund (*Premium* in 1937)	2,098.75	*8,021.25*
	$51,663,507.58	$48,532,308.06
Deduct—Dividends paid on preferred stocks at $7.00 per share	690,963.00	690,963.00
	$50,972,544.58	$47,841,345.06
Deduct—Dividends paid on common stock:		
Apr. 1—30 cents per share	$ 1,876,574.10	$ 1,876,574.10
July 1—30 cents per share	1,876,574.10	1,876,574.10
Oct. 1—20 cents per share (1937—30 cents per share)	1,251,049.40	1,876,574.10
Dec. 15—20 cents per share (1937—30 cents per share)	1,251,049.40	1,876,574.10
	$ 6,255,247.00	$ 7,506,296.40
Earned surplus at end of year, per balance sheets	$44,717,297.58	$40,335,048.66

CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS

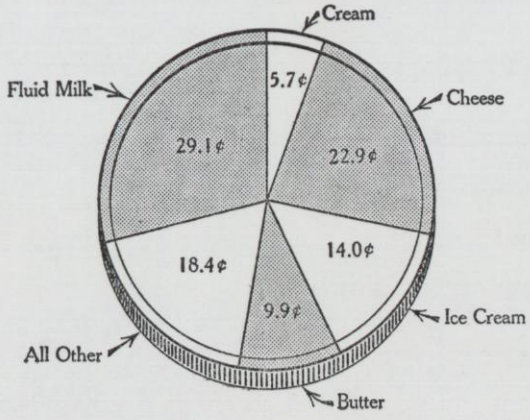
For the Years Ending December 31, 1938 and December 31, 1937

	Year 1938	Year 1937
Capital surplus at beginning of year, per published reports	$ 4,308,304.59	$ 4,412,845.11
Add—Excess of consideration received upon exercise of warrants attached to 3¾% Debentures due 1951 over stated value of common stock issued therefor	.....	1,700.00
	$ 4,308,304.59	$ 4,414,545.11
Deduct—Goodwill purchased during year, written off	10,583.57	106,240.52
Capital surplus at end of year, per balance sheets	$ 4,297,721.02	$ 4,308,304.59

SALES VOLUME (TONNAGE) -- 1930 = 100%

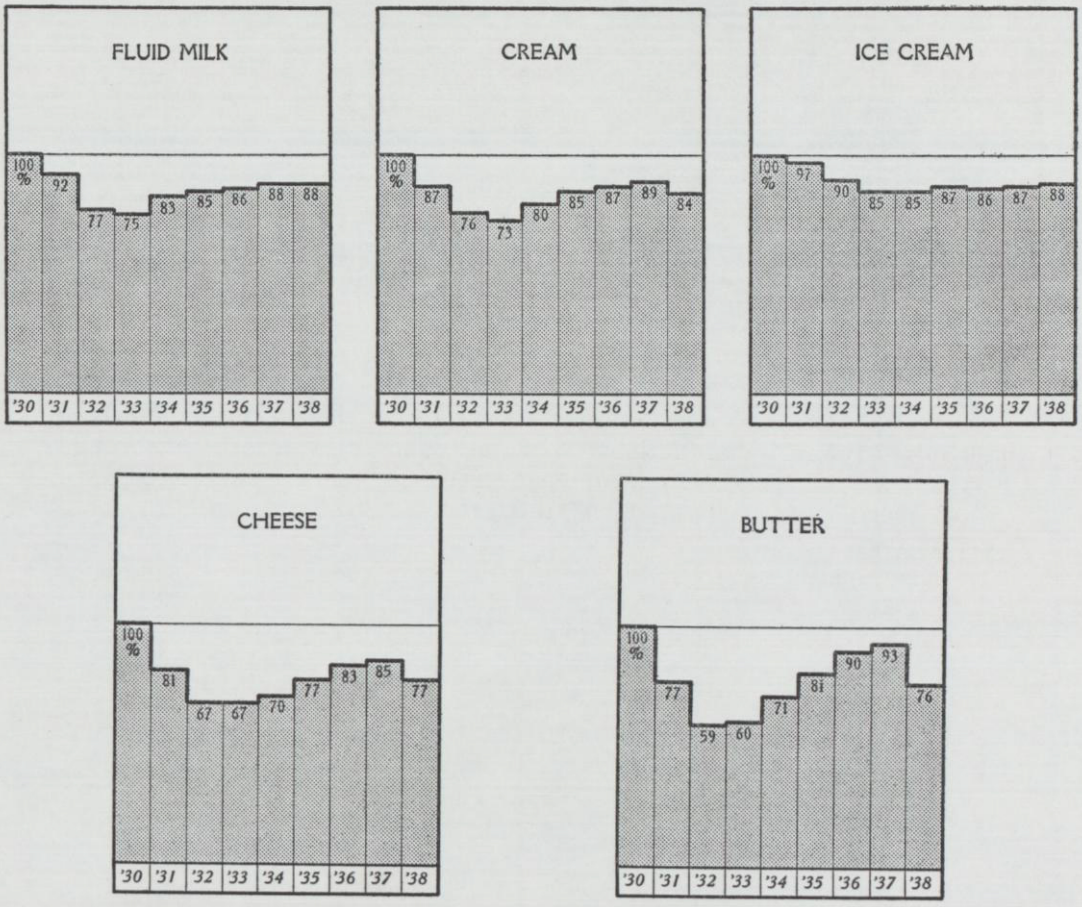


SOURCE OF 1938 SALES DOLLAR



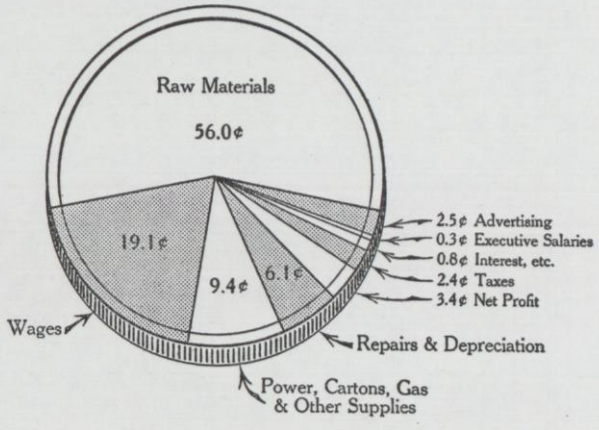
The trend since 1930 in volume sales and average unit selling prices of our major products is shown in the charts above. At the left is set forth the relative portion of total sales of $334,000,000 contributed by each of these

UNIT SELLING PRICES -- 1930 = 100%

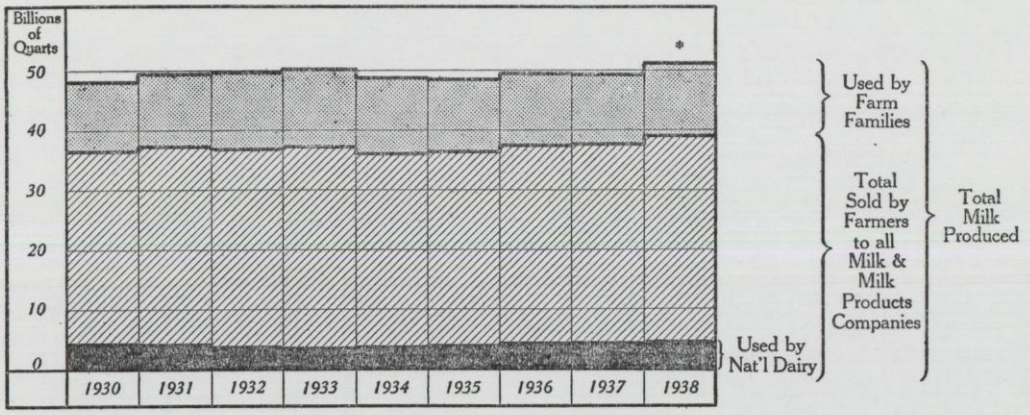


products. The chart at the right shows a breakdown of expenses incurred in obtaining these $334,000,000 of sales. It will be noted that material costs (mostly payments to farmers for milk) and wages account for 75% of total operating expenses.

DISTRIBUTION OF 1938 SALES DOLLAR



MILK PRODUCTION IN THE UNITED STATES



The total amount of milk (3.5% butterfat) used by National Dairy's milk, butter, cheese, ice cream and other dairy products divisions has increased consistently since 1933 and averages about 11% of the nation's commercial milk production. Actual National Dairy usage annually from 1930 through 1938 in quarts has been as follows: 4,110,000,000; 4,016,000,000; 3,857,000,000; 3,670,000,000; 3,850,000,000; 3,937,000,000; 4,189,000,000; 4,351,000,000; 4,511,000,000.

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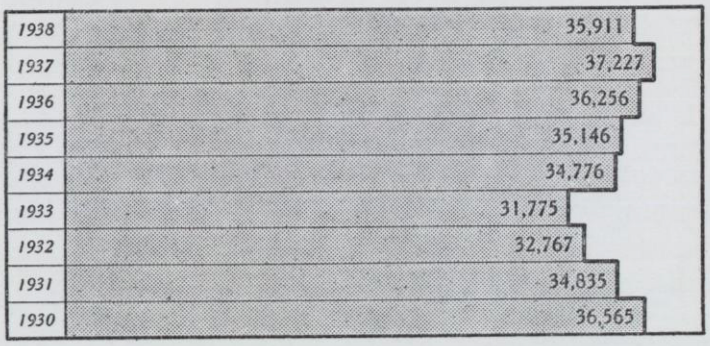
* Estimated; U. S. Department of Agriculture data not yet available.

NUMBER OF EMPLOYEES – ANNUAL AVERAGE



NUMBER OF COMMON STOCKHOLDERS AS OF DECEMBER 31